Moody's Investors Service

Global Credit Research
New Issue
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New Issue: Lynchburg (City of) VA

MOODY'S ASSIGNS Aa3 TO LYNCHBURG'S (VA) $33.8M G.O. BONDS, SERIES 2007

Aa3 AFFIRMATION AFFECTS $211M IN PARITY DEBT OUTSTANDING, INCLUDING CURRENT ISSUE

Municipality
VA

Moody's Rating

ISSUE	RATING
General Obligation Public Improvement Bonds, Series 2007	Aa3

Sale Amount	$33,800,000
Expected Sale Date	07/19/07
Rating Description	General Obligation

Opinion

NEW YORK, Jul 10, 2007 -- Moody Investors Service has assigned a Aa3 rating to the City of Lynchburg, Virginia's $33.8 million General Obligation Public Improvement Bonds, Series 2007. Concurrently, Moody's has affirmed the Aa3 rating on the city's $211 million of previously issued parity debt. The bonds are secured by the city's general obligation unlimited property tax pledge. The Aa3 long-term rating reflects the city's modestly growing economic base; satisfactory financial performance; and above average debt levels. Proceeds of the bonds will fund city capital projects as well as the defeasance of a $16.5 million BANs issued to fund water and sewer system improvements.

GROWING ECONOMIC BASE SUPPORTED BY NEW CAPITAL INVESTMENT

Moody's expects the city's diverse economic base will continue to grow given ongoing private investment encouraged through aggressive economic development efforts. A regional commercial center in western Virginia, Lynchburg has experienced healthy 5.2% average annual growth in assessed valuation over the last five years and is now fully valued at $4.46 billion. This reflects both the introduction of new industry and expansion of existing industries, including a Frito Lay (subsidiary of PepsiCo, Inc. - rated Aa3) food processing plant, the BWX Technologies (Nuclear Fuel), and the healthcare facilities of Centra Health (rated A1). Recent expansion of existing business reflects the city's economic development strategy focused on encouraging firms already located in the city to remain and expand their facilities. These programs include the development of two publicly owned industrial parks, the creation of a small-business assistance center with loans and low-cost office space, and the use of various targeted incentives including subsidized land, and infrastructure and cash grants. The city has also invested in a variety of redevelopment projects designed to revitalize the downtown area by attracting new commercial tenants. In addition to a number of other manufacturing firms, the city contains a major medical center, a large regional shopping mall, as well as several big box retailers, all of which serve the surrounding areas. The city also includes five colleges, with an enrollment approximating of 15,400 including Liberty University, which has aggressive growth plans reportedly intended to expand the schools 9,600 student body 1,000 students per year throughout the near term. While the last census reported that Lynchburg's wealth indicators were below state norms, the strength of the local economy is reflected in a healthy full value per capita of $64,912-moreover, the presence of a sizable student population tends to negatively skew wealth indices.

HISTORY OF SOLID FINANCIAL PERFORMANCE CHARACTERIZED BY STABLE RESERVE LEVELS AND DIVERSE REVENUE STREAMS

The city's solid financial performance is expected to continue, given consistently ample reserve levels and diverse revenue streams. Fiscal years 2004 through 2006 yielded a combined $14.9 million in operating surpluses-bringing fiscal year end 2006 General Fund balance to $36.8 million or 24% of General Fund revenues. The fiscal 2006 surplus, $10.3 million, represents the majority of the positive variance and primarily reflects a one-time revenue driven by the change in accounting for the city's collection of personal property taxes ($6 million). Management reports that this one-time revenue was appropriated for capital projects in 2007 in addition to the city's ongoing cash-for-capital program. On an undesignated basis 2006 General Fund balance was $26 million (16.5% of General Fund revenues), in excess of the city's policy target of 10%. Fiscal 2007, which ends June 30, is expected to result in structurally balanced operations. Reserves are, however, projected to decline by $6.6 million, reflecting appropriation of the $6 million from the 2006 one-time revenue as well as an additional $5.8 million for city and schools capital projects. Moving forward, Moody's expects reserves will grow in line with budgetary expansion. The city's primary revenue source is property taxes (29%), with other local taxes providing an additional 24%. Growth at Liberty University is reportedly driving growth in the city's other local taxes, including sales tax and the meals and lodging tax both demonstrating 9% growth in 2006.

WITH SUBSTANTIAL ENTERPRISE SUPPORT, DEBT BURDEN EXPECTED TO REMAIN MANAGEABLE

Moody's believes that the city's debt burden (3.8% of full valuation), while above average, will remain manageable despite significant additional borrowing plans, given rapid retirement of principal, ongoing growth in assessed valuation, and expected enterprise support of a significant portion of current and future long-term debt. Debt burden is net of $137.8 million of self-supporting water and sewer debt, almost equally divided between general obligation and revenue bonds. Principal is repaid at an above average pace (60% in ten years) and Moody's believes the city's growing tax base will adequately accommodate future borrowing needs. The city has a five-year capital plan in the amount of $300 million, of which approximately $200 million is projected to be financed through the issuance of long-term debt over the next five years (including $78 million in revenue bonds). The city's water system supports outstanding general obligation debt and rates for this enterprise remain highly competitive. A substantial portion of debt has been issued to comply with the city's combined sewer overflow (CSO) special order requirements. In addition to the sizeable borrowing plans, the sewer system, although self-supporting, currently faces a number of other challenges, including growing expenditures and high rates, which are in danger of becoming uncompetitive. To address this issue, the city restructured a portion of the outstanding sewer debt through a zero-interest state revolving loan in order to extend maturities and improve coverage margins. This action freed up an additional $20 million in debt capacity to devote to CSO projects. Moody's expects operations will be sufficient to maintain the city's general obligation credit strength, given the system's history of stable financial operations and strong management.

KEY STATISTICS

Population (2006 estimate): 68,758

2007 Full Valuation: $4.46 billion

Full Value Per Capita: $64,912

Debt burden: 3.8%

10-Year Payout: 60%

General Fund Balance (2006): $36.8 million (23.4% of General Fund revenues)

Per capita income as % of state (1999): 76.2%

Median family income as % of state (1999): 75.4%

Post sale parity debt outstanding: $211 million

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